

Country Studies

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Country Studies



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Finance

The traditional banking system was inherited from the AngloEgyptian colonial system (1898-1955). When the National Bank of Egypt opened in Khartoum in 1901, it occupied a position as banker to and for the government, a "semi-official" central bank followed, but the National Bank of Egypt and Barclays Bank dominated and controlled the financial system in Sudan until after World War II. Post-World War II prosperity created an increasing number of commercial banks. By 1965 loans to the private sector had reached £Sd55.3 million.

Before Sudanese independence, there had been no restrictions on the movement of money between Egypt and Sudan, and the value of the currency used in Sudan was pegged to the Egyptian pound. This situation was unsatisfactory to an independent Sudan, which established a Sudan Currency Board to replace Egyptian and British money. It was not a central bank and did not accept deposits, lend money, or provide commercial banks with cash and credit. In 1956 the Bank of Sudan was established to succeed the Sudan Currency Board and to manage the Sudanese assets of the National Bank of Egypt. In February 1960, the Bank of Sudan began acting as the central bank of Sudan, issuing currency, assisting the development of the economy, providing loans, maintaining financial equilibrium, and advising the government on financial matters.

There were originally five major commercial banks (Bank of Khartoum, Anglo-Egyptian Commercial Bank, the People's Cooperative Bank, and the Unity Bank), but only the first two subsequently grew. The public was dissatisfied with the commercial banks, and they were reluctant to lend capital for longterm development projects. In 1970 the government decreed the 1970 Nationalization of Banks Act, all domestic banks were nationalized and controlled by the Bank of Sudan.

In 1974, to encourage foreign capital investment, foreign banks were urged to enter the Sudan in ventures in association with Sudanese capital. Banking transactions with foreign banks operating in Sudan were facilitated so long as they abided by the rulings of the Bank of Sudan and transferred a minimum of £Sd3 million into Sudan. Known as the "open door" system, it was partly a result of Nimeiri's disillusion with the left after the unsuccessful revolution of 1971.

coup of 1971. Several foreign banks took advantage of the opportunity, most the Faisal Islamic Bank, Chase Manhattan Bank, and the Arab Authority for Investment and Development.

In addition, the government established numerous specialized banks, such as the Bank of Sudan (1959) to promote agricultural ventures, the Industrial Bank to promote private industry, the Sudanese Estates Bank (1966) to provide housing, and the Sudanese Savings Bank established to make small loans particularly in the rural areas. The financial system worked effectively until the late 1970s and 1980s, when the declining oil prices, balance-of-payments problems, spiraling external debt, the increase in corruption, and the appearance of Islamic banking disrupted the financial system.

Islamic Banking

The Faisal Islamic Bank, whose principal patron was the Saudi prince, Muhammad bin Abdul Aziz Saud, was officially established in Sudan in 1977 by the Faisal Islamic Bank Act. The "open door" policy enabled Saudi Arabia, which had a huge surplus after the 1973-74 oil price increases of the Petroleum Exporting Countries (OPEC) members, to increase its role in the Sudan. Members of the Muslim Brotherhood and its political arm, the National Islamic Front, played a prominent role on the board of directors of the Faisal Islamic Bank, thus strengthening its position in Sudan. Other Islamic banks followed. As a consequence, the Islamic Khatmiyyah religious groups and their political parties, the Umma and the Democratic Party, formed their own Islamic banks.

The Faisal Islamic Bank enjoyed privileges denied other commercial banks (such as tax breaks on assets, profits, wages, and pensions), as well as guarantees against nationalization. Moreover, these privileges came under Nimeiri's protection as he became committed to applying Islamic doctrine to all aspects of Sudanese life. The theory of Islamic banking is derived from the Quran and the Prophet Muhammad's teachings against exploitation and the unjust acquisition of wealth, defined as *riba*, or, interest or usury. Profit and trade are encouraged and provide the basis for Islamic banking. The prohibitions against interest are founded on the Islamic concept that profit results from an individual's creative labor or from exchange of goods or services. Profit on money loaned falls within neither of these two concepts and is thus unjustified.

To resolve this dilemma from a legal and religious point of view, Islamic banking uses common terms: *musharakah* or partnership for production; *mudharabah* or partnership when one party provides the capital, the other the labor; and *murabahah* or payment on purchases, similar in practice to an overdraft and the most common banking arrangement in Sudan. To resolve the prohibition on interest, an overdraft would be changed to a *murabbahah* contract. The fundamental difference between Islamic and traditional banking systems is that in an Islamic system deposits are not guaranteed, which does not guarantee their nominal value. The appeal of the Islamic system, as government support and patronage, enabled these institutions to acquire 40 percent of Sudanese deposits. Politically, the popularity and wealth of Islamic banks provided a financial basis for funding and promoting Islamic policies in government.

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